



Arizona State Senate **Background Brief**

November 27, 2006

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ARIZONA'S BUDGET STABILIZATION FUND

INTRODUCTION

Arizona is one of 38 states that have budget stabilization funds (BSF), also known as "rainy day funds." BSFs share the common theme of setting aside revenues during times of strong economic growth to be used during times of weak growth or decline.

HISTORY

In 1990, Arizona was one of 48 states that had a balanced budget requirement. Therefore, any unforeseen deficit in the state General Fund became the first obligation in the ensuing fiscal period. At that time, Arizona's economy was experiencing high volatility. In FYs 1986-1987, 1987-1988 and 1988-1989, mid-year budget cuts were implemented due to revenue shortfalls. In FYs 1988-1989 and 1989-1990, tax increases were enacted to help finance the state budget. In response to fluctuating revenues and corresponding funding problems, many states at this time were enacting a variety of counter-cyclical fiscal strategies, including the creation of BSFs.

The Joint Legislative Budget Committee (JLBC) developed the formula that drives the deposits and withdrawals from Arizona's BSF. The formula compares the *annual* Arizona personal income growth rate with the *trend* growth rate for personal income over the previous seven years. Using this formula, the Economic Estimates Commission (EEC) makes the necessary calculations. The EEC annually reports its calculations to the JLBC and the Governor, for the prior year on June 1. The EEC calculations, however, do not result in any automatic BSF deposits or withdrawals. Rather, the JLBC and Governor's budget documents recommend the amounts to be appropriated or withdrawn subject to legislative action.

The BSF statutes originally stipulated that the balance should not exceed 15 percent of General Fund revenue for each fiscal year and any amount over that should be returned to the state General Fund. In 1995, that percentage was reduced to five percent (Laws 1995, First Special Session, Chapter 3). However, in the two years following the adoption of this lower percentage, money reverted to the General Fund due to the addition of interest. The percentage

was then increased to 5.634 for FY 1997-1998, 5.333 for FY 1998-1999 and 7.000 for FY 1999-2000 (Laws 1997, Chapter 199).

During the 1998 special session for adoption of the FY 1999-2000 budget, legislation was passed to allow the BSF to exceed 6.333 percent of General Fund revenue for FY 1998-1999. It further restricted the transfer of BSF monies to the General Fund to calendar years in which the *annual* growth rate of the economy is less than two percent, in addition to the existing restriction that it be less than the *trend* growth rate (Laws 1998, Fourth Special Session, Chapter 6).

BSF EXPENDITURES

In 2000, the Legislature appropriated a total of \$80 million from the interest earned on the BSF in FYs 1999-2000 through 2002-2003 to the Arizona Department of Administration for the construction of the Arizona State Hospital. That legislation allowed repayment to the BSF, under specific conditions, using tobacco settlement monies (Laws 2000, Seventh Special Session, Chapter 1). Based on the passage of Proposition 204 and an Attorney General opinion, the reimbursement to the BSF for Arizona State Hospital construction costs is the last priority in the use of funds from the master tobacco settlement agreement. A total of \$40 million was repaid from tobacco settlement funds into the BSF (\$20 million in each of FYs 1999-2000 and 2000-2001). In FY 2002-2003, an additional \$13.4 million was transferred from the Arizona State Hospital Fund to the state General Fund. No additional amounts have been repaid to the BSF.

In 2000, legislation was adopted to allow the state to borrow up to \$200 million from the BSF to pay for tax credits for alternative fuel vehicles and alternative fuel refueling equipment. The BSF would be repaid with interest, up to \$16 million annually from the transaction privilege tax distribution base. In FY 2000-2001, a repayment of \$16 million was made to the BSF. The repayment schedule was later repealed and no additional amounts have been repaid to the BSF.

ADDITIONAL RESOURCES

- Joint Legislative Budget Committee
602-926-5491
- State Treasurer's Office
602-604-7800
- Budget Stabilization Fund Statutes: A.R.S. §§ 35-144 and 35-314.02